

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 SS-15 NSC-05 PM-03 L-03

H-02 SY-05 SCCT-01 DODE-00 PA-01 PRS-01 INT-05 /094 W

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R 111115Z JUN 75

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 5496

INFO AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY RANGOON

AMEMBASSY SINGAPORE

AMCONSUL HONG KONG

C O N F I D E N T I A L SECTION 1 OF 2 BANGKOK 10930

E.O. 11652: GDS

TAGS: ECON, EINV, TH

SUBJ: BUSINESS CLIMATE

REF: STATE 129194 (NOTAL)

SUMMARY: RECENT EVENTS IN INDO-CHINA, A THREAT OF INTENSIFIED INSURGENCY, RISING ECONOMIC NATIONALISM DURING A PERIOD OF SOCIAL TURBULENCE AS THAILAND GROPE TO ESTABLISH A VIABLE DEMOCRATIC SYSTEM OF GOVERNMENT, COUPLED WITH WORLDWIDE RECESSION AND INFLATION, ALL CONTRIBUTE TO A CLOUDY TRADE AND INVESTMENT PICTURE BOTH FOR FOREIGNERS AND THAI. OBSERVERS RECOGNIZE THE THAI MAY FAIL TO MEET THE CHALLENGE BECAUSE OF A WEAKNESS OF NATIONAL WILL BUT MUST ALSO AGREE THE COUNTRY HAS THE HUMAN AND MATERIAL RESOURCES TO SUCCEED. WE BELIEVE CAUTION SHOULD BE EXERCISED FOR A FEW MONTHS ON MAJOR NEW INVESTMENTS BUT AT LEAST FOR THE NEXT THREE TO FIVE YEARS CONTINUED BUSINESS PROFITS FROM EXISTING OPERATIONS APPEAR SECURE. END SUMMARY.

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1. IT WOULD BE MOST UNFORTUNATE IF HOME OFFICES OF AMERICAN COMPANIES ADOPTED UNDULY BLEAK ATTITUDE TOWARD FUTURE OPPORTUNITIES FOR TRADE AND INVESTMENT IN THAILAND. UNDERSTANDABLY, RECENT EVENTS IN INDO-CHINA HAVE CAUSED CONSIDERABLE CONCERN, BUT SOBER SECOND THOUGHTS ARE NOW EMERGING. ON REFLECTION BANKING AND BUSINESS CIRCLES, BOTH THAI AND FOREIGN, HAVE DECIDED THAT, WHILE THAILAND'S PROSPECTS ARE LESS BRIGHT THAN SEVERAL MONTHS AGO, THIS NATION IS QUITE A DIFFERENT CASE FROM HER NEIGHBORS TO THE EAST. THEY BELIEVE THAT WHILE CAUTION SHOULD BE EXERCISED FOR THE IMMEDIATE FUTURE, THE LONG-TERM PROSPECTS REMAIN ENCOURAGING. THAILAND HAS HISTORICAL CONTINUITY, GENERAL ETHNIC HOMOGENEITY AND THE UNIFYING FORCE OF THE MONARCHY AND THE BUDDHIST RELIGION. THAILAND'S ECONOMIC PERFORMANCE OVER THE PAST TWO DECADES IS A CREDITABLE ONE WHEN COMPARED TO OTHER DEVELOPING COUNTRIES. IT IS WELL ENDOWED WITH TALENTED PEOPLE AND HAS A GOOD NATURAL RESOURCE BASE. THE FINANCIAL STRUCTURE OF THE COUNTRY IS STRONG.

2. THERE IS NO DOUBT THAT THAILAND IS FACING MORE DIFFICULT PROBLEMS THAN IT HAS FOR YEARS. ITS LONG POROUS BORDERS WITH LAOS AND CAMBODIA MAKE IT ONE OF THE MOST EXPOSED COUNTRIES GEOGRAPHICALLY IN THE NON-COMMUNIST WORLD. THE POSSIBILITY OF AN OVERT INVASION REMAINS REMOTE BUT INSURGENCY IS A CONTINUING PROBLEM AND THIS MAY INTENSIFY IN THE PERIOD AHEAD. THE THAI HAVE THE RESOURCES TO COPE WITH THE INSURGENCY IF THEY MAKE THE TOUGH DECISIONS NECESSARY TO USE THESE RESOURCES MORE EFFECTIVELY.

3. DOMESTICALLY, THE RTG HAS SUFFICIENT MEANS, THOUGH NOT ALWAYS THE UNITY OF WILL, TO DEAL WITH LABOR TURBULENCE; THE KHUKRIT GOVERNMENT, RESTRICTED BY THE NEED TO RETAIN THE SUPPORT OF 16 PARTIES, HAS MADE PROGRESS AND IS SOLIDIFYING ITS POSITION. TOP GOVERNMENT LEADERS ARE FULLY AWARE OF THE NECESSITY TO RESTORE FOREIGN INVESTMENT CONFIDENCE IN THE WAKE OF THE TEMCO CONCESSION REVOCATION, BUT INDIVIDUAL DEPARTMENTS RETAIN THE ABILITY TO CONFOUND RTG POLICY FOR THEIR OWN VESTED INTERESTS.

4. IN THIS REGARD, THE EMBASSY HAS OVER MANY MONTHS EXPRESSED CONCERN TO THE HIGHEST LEVELS OF THE RTG THAT THE TEMCO CASE WOULD ADVERSELY AFFECT THE INVESTMENT CLIMATE. OUR EFFORTS APPEAR TO BE BEARING FRUIT: MINISTER OF FINANCE BUNCHU
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ROTHANASATHAIN HAS CONFIDED TO ECON COUNSELOR THAT A DECISION HAS BEEN MADE TO OFFER UNION CARBIDE AND SHELL A NEW MANAGEMENT CONTRACT; BUNCHU BELIEVES THE MINING OF TIN ORE COULD START AGAIN IN ABOUT A MONTH, BUT THAT ANY NEW ARRANGEMENT WOULD HAVE TO BE HANDLED ADROITLY BECAUSE OF THE GRAVE RISK OF POLITICAL FALL-OUT ON SUCH AN EMOTIONAL ISSUE. (COMMENT: WE HAVE NO CONFIRMATION OF THIS APPARENT DECISION FROM ANY OTHER SOURCE.)

5. THE EMBASSY HAS NEVER BELIEVED THAT THAILAND WAS NECESSARILY THE BEST PLACE IN THE WORLD TO INVEST NOR DO WE NOW, BUT THE AMERICAN COMPANIES WHICH ARE HERE HAVE GENERALLY ENJOYED HIGHLY PROFITABLE HISTORIES AND SHOULD CONTINUE TO DO SO. IN THE CURRENT CLIMATE WE WOULD BE INCLINED AGAINST NEW INVESTMENT EXCEPT WHERE THE PROJECT FITS IN WITH THAI DEVELOPMENT NEEDS AND IS CLEARLY BENEFICIAL TO BOTH THAI AND AMERICAN INTERESTS, I.E. COMPANIES WHICH MANUFACTURE FOR THE EXPORT MARKET, ARE LABOR RATHER THAN CAPITAL INTENSIVE AND WOULD LOCATE OUT OF THE BANGKOK AREA. THIS IS NOT A TIME FOR MAJOR NEW INVESTMENT, EXCEPT UNDER THESE CIRCUMSTANCES. NEITHER IS IT A TIME TO RETRENCH OR TO IGNORE THE MARKET FOR U.S. EXPORTS THAT THAILAND PROVIDES. WE SEE NO REASON, FOR EXAMPLE, TO ADVISE U.S. EXPORTERS AGAINST EXTENDING MEDIUM TERM CREDITS OF THREE TO FIVE YEARS FOR NORMAL COMMERCIAL RISK SALES.

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----- 130947

R 111115Z JUN 75

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6. WE CERTAINLY THINK THAT NOTHING HAS HAPPENED IN THE PAST FEW MONTHS THAT WOULD GIVE ANY BASIS FOR CURTAILING OPIC INSURANCE OR SUPPLIER CREDITS. REFTEL STATES OPIC IS REASSESSING RISK WITH

RESPECT TO THAILAND. OUR CURRENT EXPERIENCE WITH OPIC APPLICATIONS LEAVES US WITH THE IMPRESSION THAT OPIC IS HANDLING BUSINESS ROUTINELY WITH THIS COUNTRY. WE BELIEVE THIS TO BE THE PROPER PROCEDURE TO FOLLOW.

7. REFTEL REFERS TO EVACUATION INQUIRIES FROM FIRESTONE AND CONTINENTAL BANK. THESE ARE ATYPICAL. AS REPORTED BY EMBASSY, FIRESTONE HAS BEEN INVOLVED IN A LONG AND BITTER STRIKE, THE GENESIS OF WHICH PREDATED RECENT EVENTS. THE STRIKE HAS NOW BEEN SETTLED WITH EMBASSY ASSISTANCE. THE CONTINENTAL BANK MANAGER HERE IS COMPLETELY RELAXED AND EXPRESSES CONFIDENCE IN THE FUTURE. HE CONTENDS, AS DO OTHER LOCAL BUSINESSMEN, THAT ONE OF THEIR MAJOR PROBLEMS IS COMMUNICATING THEIR FEELINGS OF CONFIDENCE TO THEIR HOME OFFICES. HE SAID HE WOULD CONTINUE TO REASSURE HIS HOME OFFICE AS WELL AS HIS MOTHER WHO
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DRAWNS ERRONEOUS CONCLUSIONS FROM WHAT SHE READS FROM OVERLY DRAMATIC NEWS ACCOUNTS.

8. OUR EXPERIENCE HAS BEEN THAT MANY COMPANIES ARE PROCEEDING WITH THEIR INVESTMENT AND EXPANSION PLANS AND WE KNOW OF NONE WHO ARE WITHDRAWING. TO CITE A FEW EXAMPLES OF COMPANIES THAT ARE MOVING AHEAD WITH THEIR INVESTMENT PLANS, ALTHOUGH SOME COMPANIES ARE DELAYING MAJOR FINANCIAL OUTLAYS FOR THE MOMENT, THERE ARE ROHN AND HAAS, ADAMS GUM (CHICLETS), DOW CHEMICALS, BEST FOODS, SIGNETICS, AND NATIONAL SEMI-CONDUCTOR. THE LOCAL REP OF NEW JERSEY ZINC, WHICH IS PLANNING A MULTI-MILLION DOLLAR SMELTER, ASSURES US THEIR PLANS ARE STILL ON COURSE. WE RECOGNIZE THE FINAL JUDGEMENT ON THIS LARGE INVESTMENT RESTS WITH NEW JERSEY ZINC'S HOME OFFICE AND THE CHAIRMAN OF THE BOARD DURING A VISIT IN MARCH EXPRESSED MISGIVINGS ABOUT PROCEEDING BECAUSE OF THE TEMCO CASE. OUR GUESS IS NEW JERSEY ZINC WILL DRAG OUT ITS DECISION AS LONG AS POSSIBLE BUT THE COMPANY MUST FACE THE RISK OF CONCESSION REVOCATION IF THEY DELAY INORDINATELY BECAUSE THEY ARE OBLIGED TO BUILD A SMELTER UNDER THE TERMS OF THE CONCESSION AGREEMENT. A NUMBER OF BANKERS HAVE ALSO TOLD US THAT THEY HAVE NO INTENTION OF RESTRICTING CREDIT. DESPITE GENERAL AGREEMENT THAT CAUTION AND CONTINGENCY PLANS ARE PRUDENT THERE DOES NOT SEEM TO BE A FEELING OF ALARM IN THE AMERICAN BUSINESS COMMUNITY BUT RATHER AN ATTITUDE OF WAIT AND SEE FOR A FEW MONTHS. IF THE KHUKRIT GOVERNMENT PROVES EFFECTIVE AND SURVIVES, AND IT IS OFF TO A REASONABLE START, BUSINESS CONFIDENCE WILL BE STRENGTHENED.

9. VISITORS TO THE EMBASSY'S COMMERCIAL SECTION ARE STILL INCREASING IN NUMBER. THE VOLUME OF BUSINESS CORRESPONDENCE REMAINS RESPECTABLY LARGE. SOME OF THIS UNDOUBTEDLY REFLECTS "BUSINESS ANXIETIES", BUT ONLY A VERY SMALL PERCENTAGE. THE VAST MAJORITY OF VISITORS AND LETTERS INVOLVE PEOPLE AND COM-

PANIES WHICH ARE TRYING TO EXPAND THEIR US-THAI BUSINESS
RELATIONSHIPS. IN THE ECONOMIC TRENDS REPORT SUBMITTED IN
APRIL WE ADVISED CONTINUED CAUTION ON INVESTMENT BUT REMAINED
FAVORABLE TOWARD THAILAND AS A MARKET FOR U.S. GOODS. THE SAME
HOLDS TRUE NOW. THE COMMERCIAL ATTACHE IS PREPARING AN ARTICLE
FOR "COMMERCE TODAY" ON THE INVESTMENT CLIMATE. HOPEFULLY,
IT WILL ASSIST IN COUNTERING THE SENSATIONALIST TYPE OF
ARTICLE SUCH AS THE ONE APPEARING IN "BUSINESS WEEK" OF JUNE
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5 WHICH, INCIDENTALLY, IN COMPLETE VERSION REPORTS THAT BUS-
INESSMENS' ANXIETIES WERE GREATLY REDUCED AFTER THEY ACTUALLY
VISITED THAILAND. THE THEME OF OUR ARTICLE WILL BE THE CONTINUED
CONFIDENCE OF AMERICAN BUSINESS IN THAILAND'S FUTURE AND WILL
ALLUDE TO THE DIFFICULTIES OF LOCAL REPS IN CONVINCING THEIR
HOME OFFICES THAT THE SITUATION HERE CALLS FOR CAUTION BUT
DOES NOT JUSTIFY ALARM.

WHITEHOUSE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, LABOR RELATIONS, INVESTORS, BUSINESS FIRMS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BANGKO10930
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750203-0736
From: BANGKOK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750658/aaaacavl.tel
Line Count: 245
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 STATE 129194
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 08 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 JUL 2003 by KelleyW0>; APPROVED <13 NOV 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BUSINESS CLIMATE
TAGS: ECON, EINV, TH
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006